

**LITTLE MOUNTAIN SERVICE AREA**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**

LITTLE MOUNTAIN SERVICE AREA

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Board of Trustees  
Little Mountain Service Area  
Ogden, Utah

We have compiled the accompanying statement of net assets of Little Mountain Service Area as of December 31, 2005, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

*Davis, Chase + Associates*

May 23, 2006

LITTLE MOUNTAIN SERVICE AREA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDING DECEMBER 31, 2005

## INTRODUCTION

The following is a discussion and analysis of Little Mountain Service Area's financial performance and activities for the year ending December 31, 2005.

## HIGHLIGHTS

Little Mountain Service Area negotiated and signed a service agreement with Central Weber Sewer Improvement District to perform operation and maintenance activities at Little Mountain Service Area's facilities on their behalf. The agreement also authorizes Central Weber Sewer Improvement District to implement and administer the industrial pretreatment program currently under development.

Little Mountain Service Area initiated engineering design work on planned sewer plant upgrades. The upgrades will convert the flocculative lagoon system into a flow-through treatment system with a discharge to the Great Salt Lake. The discharge permit has been issued by the Utah Division of Water Quality. The design work includes a full assessment of the current facility since many of the components of a flow-through system were installed in the early 1980's but were never put into use. A complete design package will be prepared which will be used to solicit bids on the plant upgrade construction. Expectations of increased industrial activity and wastewater discharges have necessitated the need to expand the capacity of the Little Mountain Service Area facility.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the Service Area's basic financial statements. The financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States, promulgated by the Government Accounting Standards Board. The Service Area reports as a single enterprise fund. Revenues are recognized when earned and expenses are recognized in the period in which they are incurred. See the notes to the financial statements for a summary of the Service Area's significant accounting policies.

The Service Area's financial statements are comprised of three basic statements. The Statement of Net Assets shows the overall net assets. Increases and decreases in net assets are one indicator of the overall financial condition. The Statement of Revenues, Expenses, and Changes in Fund Net Assets identify functions that are intended to recover all or most of their costs primarily through user fees and charges (business-type activities). The Statement of Cash Flows reports cash flows in four categories or activities - operating, capital and related financing, non-capital financing and investing.

## Management's Discussion and Analysis

### FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

#### Net Assets

The first component of the Service Area's net assets, 30.6%, reflects investments in capital assets (land, buildings, equipment, and infrastructure) less all outstanding debt that was issued to buy or build those assets. As capital assets, these resources are not available for future spending, nor can they all be readily liquidated to pay off the related liabilities.

Restricted net assets comprise 54.8% of total net assets and are subject to external restrictions on how they may be used. The remaining 14.6% of net assets is unrestricted and may be used at the Service Area's discretion to meet its ongoing obligations to customers and creditors.

	2005	2004
<b>Assets</b>		
Current and other assets	\$ 40,362	\$ 57,400
Restricted assets	149,276	75,302
Capital assets - net of depreciation	83,475	15,261
<b>Total assets</b>	<b>273,113</b>	<b>147,963</b>
<b>Liabilities</b>		
Current liabilities	465	473
Non-current liabilities	-	-
<b>Total liabilities</b>	<b>465</b>	<b>473</b>
<b>Net Assets</b>		
Invested in capital assets net of related debt	83,475	15,261
Restricted for future improvements	149,276	75,302
Unrestricted	39,897	56,927
<b>Total net assets</b>	<b>\$ 272,648</b>	<b>\$ 147,490</b>

## Management's Discussion and Analysis

### Changes in Net Assets

The Net Assets in the Enterprise Fund increased by \$125,158.

	2005	2004
<b>Revenues</b>		
Operating revenue	\$ 140,400	\$ 140,440
Operating expenses	(19,256)	(12,806)
Operating income (loss)	121,144	127,634
Non-operating revenues	4,014	422
Non-operating expenses	-	-
Net income before capital contributions	125,158	128,056
Capital contributions	-	-
Change in net assets	125,158	128,056
Net assets - beginning	147,490	19,434
Net assets - ending	\$ 272,648	\$ 147,490

### Capital Assets

Little Mountain Service Area added \$68,214 in predesign costs for planned sewer treatment plant expansion during the fiscal year. These are shown as construction in progress on the financial statements.

### Long-Term Debt

The Service Area currently has no long-term debt obligations.

### ADDITIONAL INFORMATION

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of Little Mountain Service Area's finances and to demonstrate the Service Area's accountability for the money it receives. Questions concerning any of the information provided in this report or any other matters related to the Service Area's finances should be addressed to Little Mountain Service Area, 10000 West 900 South, Ogden, Utah 84404.

LITTLE MOUNTAIN SERVICE AREA

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS

DECEMBER 31, 2005

	Business-Type Activities - <u>Enterprise Funds</u> <u>Sewer</u>
<b><u>ASSETS</u></b>	
Current assets:	
Cash and cash equivalents	\$ 16,962
Accounts receivable	23,400
Total current assets	<u>40,362</u>
Noncurrent assets:	
Restricted cash and cash equivalents	149,276
Fixed assets	383,475
Less: Accumulated depreciation	<u>(300,000)</u>
Total noncurrent assets	<u>232,751</u>
Total assets	<u>273,113</u>
<b><u>LIABILITIES</u></b>	
Current liabilities:	
Accounts payable	<u>465</u>
Total current liabilities	<u>465</u>
<b><u>NET ASSETS</u></b>	
Invested in capital assets, net of related debt	83,475
Restricted-construction	149,276
Unrestricted	<u>39,897</u>
Total net assets	<u>\$ 272,648</u>

The accompanying notes are an integral part of these statements.

LITTLE MOUNTAIN SERVICE AREA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Sewer</u>
<b><u>OPERATING REVENUE</u></b>	
User fees	\$ 140,400
Total operating revenue	<u>140,400</u>
<b><u>OPERATING EXPENSES</u></b>	
Sewer management	3,840
Legal and professional	4,516
Insurance	2,138
Lease	1,723
Utilities	1,384
Repairs and maintenance	5,109
Travel	351
Miscellaneous	195
Total operating expenses	<u>19,256</u>
Operating income (loss)	<u>121,144</u>
<b><u>NONOPERATING REVENUE (EXPENSES)</u></b>	
Interest income	<u>4,014</u>
Total nonoperating revenue (expenses)	<u>4,014</u>
Change in net assets	125,158
Net assets - beginning	<u>147,490</u>
Net assets - ending	<u>\$ 272,648</u>

The accompanying notes are an integral part of these statements.



LITTLE MOUNTAIN SERVICE AREA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Sewer</u>
<b>Cash Flows From Operating Activities</b>	
Receipts from customers	\$ 140,400
Payments to suppliers	<u>(19,264)</u>
Net cash provided (used) by operating activities	<u>121,136</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
None	<u>-</u>
Net cash provided (used) by noncapital financing activities	<u>-</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Purchases of capital assets	<u>(68,214)</u>
Net cash provided (used) by capital and related financing activities	<u>(68,214)</u>
<b>Cash Flows From Investing Activities</b>	
Interest and dividends received	<u>4,014</u>
Net cash provided (used) by investing activities	<u>4,014</u>
Net increase (decrease) in cash and cash equivalents	56,936
Cash and cash equivalents - beginning	<u>109,302</u>
Cash and cash equivalents - ending	<u><u>\$ 166,238</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>	
Operating income (loss)	\$ 121,144
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
(Increase) decrease in accounts receivable	-
Increase (decrease) in accounts payable	<u>(8)</u>
Net cash provided (used) by operating activities	<u><u>\$ 121,136</u></u>
<b>Noncash Capital Financing Activities:</b>	
None	

The accompanying notes are an integral part of these statements.

LITTLE MOUNTAIN SERVICE AREA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Little Mountain Service Area, Utah conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The Service Area has adopted the provisions of the Governmental Accounting Standards Board (GASB). Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements.

The following is a summary of the more significant policies and is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

**A. Reporting Entity**

The Little Mountain Service Area was formed in 1978 as an independent special district to provide sewers, sewage and storm water treatment and disposal. The Little Mountain Service Area provides services to an unincorporated area of western Weber County encompassing several industrial facilities in the Little Mountain Industrial Area and one household. Little Mountain Service Area does not have any employees, the seven board members are all volunteers. All lagoon management services are provided under contract by the Central Weber Sewer Improvement District. The system operates under a Board of Directors form of government.

The criteria set forth by generally accepted accounting principles (GAAP) was used to determine which entities to include in this report. GASB Concepts Statement-1 (Objectives of Financial Reporting) concludes that the basic foundation for governmental financial reporting is accountability. The Concepts Statement asserts that accountability requires governments to answer to the citizenry - to justify the raising of public resources and the purposes for which they are used. In turn, the concept of accountability becomes the basis for defining the financial reporting entity. Under GASB-14 (The Financial Reporting Entity) the financial reporting entity consists of the primary government.

The Service Area has no component units.

**B. Fund Financial Statements**

The financial transactions of the Service Area are recorded in an individual fund. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The Service Area reports the following major proprietary fund:

- Sewer Fund -** The sewer fund is used to account for operations of the sewer utility system, (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

LITTLE MOUNTAIN SERVICE AREA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting**

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows. Fees are recognized in the year in which the related sales or other activity has occurred. Grants and similar items are recognized as revenue when all eligibility requirements have been met. When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the Service Area generally uses restricted resources first, then unrestricted resources.

Proprietary funds separate operating and non-operating revenues and expenses. Operating revenues and expenses normally arise from providing goods and services in connection with the fund's normal ongoing operations. The principal sources of operating revenues for the proprietary funds are charges to customers for goods and services. Operating expenses include the cost of sales and services, administrative overhead expenses and depreciation on capital assets. All other revenues or expenses are recorded as non-operating.

The Service Area has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. Accordingly, the Service Area has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Consequently, the Service Area does not apply FASB pronouncements issued after November 30, 1989.

**D. Assets, Liabilities, and Fund Balances/Net Assets**

The following are the Service Area's significant policies regarding recognition and reporting of certain assets, liabilities, and equity.

***Pooled Cash and Temporary Investments***

Unrestricted and restricted cash balances are combined to form a pool of cash which is managed by the District Treasurer. Utah State Statutes allow for investments in the Utah Public Treasurer's Investment Fund and Utah Money Management Act (UMMA) approved financial institutions. The UMMA provides for a committee to evaluate financial institutions and provide a list of those qualified as depositories for public funds, including the amount they are authorized to maintain over and above insured amounts. The District Treasurer invests unrestricted and restricted cash with the Utah Public Treasurer's Investment Fund and with local financial institutions. Investments in the pooled cash fund consist primarily of certificates of deposit, repurchase agreements, and time deposits and are carried at cost which approximates market value. Interest income earned as a result of pooling is distributed to the appropriate funds based on month end balances of cash. The Service Area considers all highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

***Inventories***

No significant inventories are maintained by the Service Area, therefore none are reflected in these statements.

LITTLE MOUNTAIN SERVICE AREA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, and Fund Balances/Net Assets (Continued)**

***Restricted Assets***

Certain resources set aside as reserves in accordance with Service Area resolutions and State statutes are classified as restricted assets on the statement of net assets because their use is limited.

***Capital Assets***

All purchased fixed assets are valued at cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Capital assets are defined as assets with an initial, individual cost of more than \$5,000.

Infrastructure capital assets which are newly constructed or contributed are capitalized.

Depreciation of all exhaustible capital assets is charged as an expense in the related program. Accumulated depreciation is reported on the Statement of Net Assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Improvements	20 years
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***Long-term Obligations***

In the proprietary fund financial statements, long-term debt obligations are reported as liabilities. As of December 31, 2005, there were no long-term liabilities.

***Net Assets/Fund Balances***

The difference between assets and liabilities is *net assets* on the fund financial statements. The Service Area's net assets are classified as follows:

- \* *Invested in capital assets, net of related debt* - This component of net assets consists of total investment in capital assets, net of accumulated depreciation, reduced by the outstanding debt obligations related to those assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.
- \* *Restricted for future improvements* - This component of net assets consists of that portion of the net assets that is restricted for capital improvement expenditures.
- \* *Unrestricted* - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

**E. Contributions**

Certain proprietary fund types receive contributions for aid in construction from various sources. With the adoption of GASB No. 33, these contributions that were formerly credited directly to contributed capital accounts are now reflected as non-operating revenue.

**F. Compensated Absences**

Service Area's policy does not provide for any vested or accumulated vacation leave.

LITTLE MOUNTAIN SERVICE AREA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. Use of Estimates**

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**H. Receivables**

Receivables include amounts due from customers primarily for services. These receivables are due within one month of billing. No allowance for doubtful accounts has been recorded since the Service Area considers all accounts to be collectible. When an amount is deemed to be uncollectible, the receivable will be written off at that time.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

**A. Deposits**

The Service Area's deposits are carried at cost.

At December 31, 2005, the carrying amount of the Service Area's deposits was \$16,962 and the bank balance was \$27,473. Of the bank balance, \$27,473 was covered by federal depository insurance.

**B. Investments**

At year-end investments consist of funds in the Utah Public Treasurer's Investment Fund. This investment is administered by the State of Utah and is regulated by the Money Management Council under provisions of the Utah State Money Management Act. The investment is not categorized as to credit risk because it does not represent a security that exists in physical or book entry form. Investments are carried at cost which approximates their fair value.

Investments not subject to categorizations:

	Carrying Amount	Market Value
Utah Public Treasurer's Investment Fund	\$ 149,276	\$ 149,211

**C. Summary**

	Carrying Amount
Deposits	\$ 16,962
Investment in Utah Public Treasurer's Investment Fund	149,276
Total deposits and investments	\$ 166,238
Equity in pooled cash and investments	\$ 16,962
Restricted investments - future improvements	149,276
Total deposits and investments	\$ 166,238

LITTLE MOUNTAIN SERVICE AREA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2005

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

*Deposit and Investment Risk Disclosure.* Deposits and investments for Little Mountain Service Area are governed by the Utah Money Management Act (Utah Code Annotated, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the Service Area's exposure to various risks related to its cash management activities.

*Deposits.* Custodial credit risk for deposits is the risk that in the event of a bank failure, the Service Area's deposits may not be recovered. The Service Area's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of Service Area funds to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commission of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Service Area's deposits in the bank in excess of the insured amount are uninsured and are not collateralized, nor do state statutes require them to be. The Service Area's deposits at December 31, 2005, were \$27,473, of which \$27,473 was insured under federal depository insurance.

*Credit risk.* Credit risk is the risk that the counterparty to an investment transaction will not fulfill its obligations. The Service Area's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations; and shares in a money market fund as defined in the Act.

The Service Area is also authorized to invest in the Utah Public Treasurer's Investment Fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

For the year ended December 31, 2005, the local government had investments of \$149,276 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

*Interest rate risk.* Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Service Area manages its exposure by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

*Concentration of credit risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Service Area's policy to limit this risk is to adhere to the rules of the Money Management Act.

LITTLE MOUNTAIN SERVICE AREA  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**NOTE 3 - CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2005, was as follows:

	Balance December 31, 2004	Additions	(Deletions)	Balance December 31, 2005
<b>BUSINESS-TYPE ACTIVITIES</b>				
Nondepreciated Assets				
Construction in progress	\$ 15,261	\$ 68,214	\$ -	\$ 83,475
Total nondepreciated assets	15,261	68,214	-	83,475
Depreciated Assets				
Collection system	300,000	-	-	300,000
Total depreciated assets	300,000	-	-	300,000
Less accumulated depreciation				
Collection system	(300,000)	-	-	(300,000)
Total accumulated depreciation	(300,000)	-	-	(300,000)
Net assets depreciated	-	-	-	-
Business type activities - net	\$ 15,261	\$ 68,214	\$ -	\$ 83,475
<b>Depreciation Expense</b>				
December 31, 2005		\$ -		

**NOTE 4 - RISK MANAGEMENT**

Little Mountain Service Area is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Service Area carries commercial insurance. The Service Area maintains comprehensive insurance coverage in aggregate amounts sufficient to protect against all reasonably foreseeable liability risks. Specific policies purchased include directors and officers liability. As of December 31, 2005, there is no anticipation of unpaid claims. Therefore, a liability is not accrued. Settlement amounts have not exceeded coverage for the current year or the three prior years.

**NOTE 6 - LEGAL COMPLIANCE BUDGETS**

The budget for the fiscal year ending December 31, 2005, was approved and adopted by resolution or ordinance dated December 21, 2004. A public hearing, meeting the requirements specified in the Utah Code 11-35-113/114, was held on December 21, 2004. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the enterprise fund. All annual appropriations lapse at fiscal year end. Encumbrance accounting is not used by the Service Area.